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The Economic and Fiscal Impact of Repealing DACA

By IKE BRANNON and Logan Albright

Executive Summary

Donald Trump has proposed eliminating or severely modifying the Deferred Action for Childhood Arrivals (DACA) program. Many Americans believe that the presence of unauthorized immigrants is harmful to the economy and would like to see steps taken to reduce their presence. However, a repeal or roll-back of DACA would harm the economy and cost the U.S. government a significant amount of lost tax revenue. We estimate that the fiscal cost of immediately deporting the approximately 750,000 people currently in the DACA program would be over \$60 billion to the federal government along with a \$280 billion reduction in economic growth over the next decade.

We arrived at our estimates by comparing and adjusting the characteristics of DACA recipients to similarly well-educated immigrants admitted through the H-1B visa program, a cohort that not only resembles the population of DACA recipients but whose own economic impact has been well-studied. We use the esti-

mated budgetary and economic impact of H-1B visa workers and adjust it to reflect the age and earnings differences between the two groups to calculate our figures.

Background

President Obama created the DACA program in 2012 via executive action. DACA's objective was to allow American residents who entered the country illegally as children to receive temporary protection from deportation, work permits, and an incentive to invest in their own human capital. The program only applies to those who have lived in the United States for five years or longer and do not have a criminal record. Essentially, these are people who never knowingly broke any law and have been productive and peaceful members of society since their arrival. The logic of the Obama Administration in creating DACA is that it makes little sense to expend time and resources trying to track down, arrest, and deport these people when they have not committed any crime save for being unwittingly brought across the border by others.

There is much legitimate debate in the United States over the role that immigration—both legal and illegal—plays in the economy, and what should be done about border security. Inseparable from this problem is the question of what to do with the undocumented immigrants already in the country, a sizeable population that is estimated to number 11 to 12 million.^[1]

President-Elect Donald Trump has taken an absolutist position on the issue, vowing not only to build a wall with the intent of greatly reducing illegal entry from the Mexican border, but also to unilaterally nullify President Obama's executive actions dealing with immigration, including the action which spawned DACA.

As with any sudden and dramatic shift in any policy, there are bound to be costs associated with implementation, as well as after-effects of the policy, not all of which are immediately intuitive. It is the goal of this paper to examine the costs

that the wholesale repeal of DACA would impose on the American economy, both in terms of enforcement as well as the sudden loss of a large number of residents and their contributions to the domestic economy.

Who Are the DACA Recipients?

Although there have been many previous studies on the costs and benefits of immigration as a whole (we recently authored a review of such studies), it is important to note that we cannot simply assume that DACA recipients constitute a representative sample of the immigrant population. In addition to the aforementioned screening for criminal activity, workers in the DACA program tend to be younger, better educated, and more highly paid than the typical immigrant. To extrapolate from the studies on immigration in general, therefore, would significantly underestimate the opportunity cost to the economy of deporting the approximately 750,000 program participants, due to their higher level of productivity.

We instead looked for another group that might more closely resemble the demographic characteristics of those in the DACA program whose economic and budgetary impacts on the economy is well established: the recipients of H-1B visas, which are issued to skilled workers who are invited into the country to fulfill specific economic needs. This coincidence is useful.

The average DACA recipient is 22 years old, employed, and earns about \$17 an hour. The majority are still students and 17 percent are pursuing an advanced degree.^[2] By contrast, most recipients of H-1B visas are between 25 and 34 and hold either a Bachelor's Degree or a Master's Degree. In short, they appear to be a close reflection of what DACA recipients will look like a few years from now as they complete their educations.^[3]

While the comparison is not perfect, as no such comparison can be, calculating costs under the assumption that DACA recipients are more like H-1B Visa holders than the general population of unauthorized immigrants will, we believe,

yield a more accurate result. And given that we know the demographic and educational differences between the two groups we take those differences into account when estimating the fiscal and economic costs of repealing DACA.

Economic Costs

As of June 2016, U.S. Citizenship and Immigration Services has received 844,931 applications for the DACA program. Of these, 741,546 were accepted, with the rest either denied or pending approval.^[4] It should be noted that the applicants to DACA are asked to pay the administrative fees for background checks and processing, so the administrative costs of implementing the program itself are minimal. While the Obama Administration had announced its intention to expand the program last year, this is unlikely to occur under the Trump Administration, so we will accept these numbers as representative of the affected population.

Little research has been done on the effects of DACA itself, which is why we have chosen to extrapolate the program's economic impact from the research done on holders of H-1B visas, who are demographically similar to workers in the DACA program, as well as from the numerous studies on the economic effects of undocumented immigration generally.

One study on DACA itself was conducted by Nolan G. Pope and published in the *Journal of Public Economics* in 2016. Nolan found that DACA moved between 50,000 and 75,000 immigrants into employment from either outside the formal labor force or unemployment, and increased the average income of immigrants in the bottom of the income distribution.^[5] This is a positive labor market outcome for a number of reasons: working and earning a higher level of income in the formal sector means that the DACA workers pay more taxes, both through payroll, income, and sales as a result of greater consumption associated with higher incomes. The Organization of Economic Co-operation and Development

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(OECD) cited employment as “the most important factor that weighs on mi-
grants’ net fiscal contributions,” so it is clear that any increase in immigrant em-
ployment will tend to result in a positive fiscal impact.^[6]

A 2014 survey found that 59 percent of DACA recipients reported getting their first job, 45 percent received a pay increase, 49 percent opened their first bank account, and 33 percent got their first credit card due to their participating in DACA.^[7] All of these factors contribute positively to the economy. But while the survey also noted that recipients would be eligible for higher levels of educa-
tion, Pope’s research completed two years later found no correlation between DACA participation and education, although it is possible that simply not enough time has passed to observe an effect.

Turning more generally to the cost-benefit analysis of unauthorized immigra-
tion as a whole, the evidence suggests that the mere presence of undocumented workers, especially non-criminals like those covered under DACA, is not nearly as detrimental to the economy as most people suppose, and may actually be a net benefit. Legalizing unauthorized immigrants and allowing them to partici-
pate in society as legal workers dramatically reduces government enforcement costs and generates broader economic benefits.^[8]

Quantifying the Net Costs

Quantifying the costs of any action on immigration presents enormous difficul-
ties, due to the complexity and number of variables involved.

Alex Nowrasteh, a scholar at the Cato Institute, points out that while the eco-
nomic impact of immigration is large and positive, the fiscal impact tends to be minimal. Nowrasteh also stresses the need to take into account the long-term ef-
fects of immigration, meaning the contributions of immigrants’ children and grandchildren, which tend to be more positive than those of first generation im-
migrants.^[9]

There are unquantifiable benefits from DACA as well, such as providing increased access to private health insurance, driver's licenses, and auto insurance, all of which generate spillover benefits to the rest of society. This analysis also leaves out the effects of simply having more productive minds in the country capable of producing innovations and increasing labor productivity. The data show that immigrants start their own businesses and file patents at greater rates than native-born Americans.^[10]

The fiscal costs of DACA recipients are also minimal and comparable to the fiscal costs of H-1B workers.^[11] Under current law, DACA recipients are ineligible for means-tested welfare benefits provided by the federal government or funded through federal matching grants to the states.^[12] Although states can extend welfare benefits to DACA recipients if they choose to, few have done so. DACA recipients, like everybody else in the United States, are eligible for emergency Medicaid. Thus, DACA does not boost government welfare expenditures above the level consumed by unauthorized immigrants.

To reiterate, we need to isolate DACA recipients—who tend to be more educated, younger, and less prone to criminal activity—from the general population of unauthorized immigrants to derive an accurate estimate of DACA's impact. To do this, we begin by comparing them to the holders of H-1B visas, the work permits issued for high-skilled labor. The main difference between the two groups is age, with H-1B visa holders being on average 3 to 12 years older. With this age gap also comes the concomitant difference in education and earnings, which we can adjust for in our calculations.

Thomas Church, a senior fellow at the Hoover Institution, estimates that expanding the H-1B visa program over a ten year period would increase GDP by \$456 billion and tax revenues by \$113 billion, assuming that 660,000 new H-1B immigrants would arrive over the decade.^[13] Church obtains his results by taking the mean wages for H-1B immigrants, assuming an average wage growth of 3 percent per year, and applying the appropriate tax rates.

Church also incorporates income accrued to capital from these workers using the relatively stable historical averages calculated by the Congressional Budget Office. Multiple studies have been conducted on the impact of immigration on native wages, and the results have been both positive and negative, albeit small in either direction. There is also some evidence that the presence of immigrant workers can increase purchasing power by reducing consumer prices. Given these conflicting and minor findings, Church has not included wage or purchasing power effects in his calculations, and we have done the same.

We take Church's estimate as our baseline and begin by adjusting it to reflect the 741,546 participants in the DACA program—which is a bit more than his H-1B expansion called for—producing an estimated GDP gain of \$512 billion and a budgetary impact of \$127 billion.

However, since the average wages of DACA participants are lower than H-1B immigrants, we corrected these values to reflect the relative youth and inexperience of DACA immigrants. DACA participants earn an average of \$34,000 annually and H-1B participants an average of \$72,000 annually, a ratio of 47 percent. Applying this ratio to the economic and fiscal costs above yields an economic impact of \$215 billion and a fiscal impact of \$60 billion.

We feel this is a conservative estimate due to the fact that many DACA immigrants are young and still acquiring education credentials that will boost wages later. DACA immigrants are less like H-1B immigrants at half the salary, and more like younger H-1B workers. Additionally, the higher tax brackets associated with higher incomes would increase DACA immigrants' fiscal contributions at a greater rate than the increase in salary. In other words, doubling the wages of DACA participants would more than double their contributions to state and federal budgets. Thus, a life-cycle comparison of the wages of the two groups would produce a narrower difference.

For comparison, an influential study by the National Research Council^[14] examined the present value fiscal impact of immigration in the United States, with an emphasis on long-term impact. The study points out that immigrants become more productive over time as they learn new skills and become more fluent in English. The authors concluded that the average immigrant will have a net long-term impact on state, local and federal budgets of \$80,000, which includes tax payments as well as the impact of the children of immigrants, who tend to be less costly—and higher-earning—than their parents. Multiplying this estimate by the number of DACA recipients produces an estimated fiscal impact of \$59.3 billion, nearly identical to the \$60 billion fiscal impact we derived from the Hoover study.

We also need to add the actual cost of deportation for current DACA recipients to the fiscal and economic estimates. For this we borrow from a study from the Center for American Progress that estimates the marginal deportation costs at just over \$10,000 per removal.^[15] The total deportation cost would then be \$7.5 billion.

Summing these numbers produces a total cost estimate of immediately eliminating the DACA program and deporting its participants of \$283 billion over 10 years. In other words, the United States economy would be poorer by more than a quarter of a trillion dollars if President Trump were to make good on his threat to repeal it.

There are other variables that potentially impact both the costs and benefits of immigrant workers, and the further into the future we attempt to project such costs and benefits the more difficult accurate estimates become. For example, our calculation used only the current number of DACA recipients, but it is estimated that there could be another one million eligible residents who have not yet applied for, or received, membership in the program.^[16] We do not make any forecast regarding whether this cohort would eventually take advantage of the program and instead assume none of them would do so.

Likewise, assuming immediate deportation instead of a temporary reversion to undocumented status changes the calculus as well, considering the costs that result from people trying to live outside the law. This would need to be taken into account.

Alex Nowrasteh of Cato suggested that it is probably more realistic to assume that upon a repeal of DACA the newly unauthorized immigrants would predominantly remain in the United States and pursue employment illegally, at wages 10 percent to 20 percent less than they earned legally. If we combined that with a similar reduction in employment levels then the resulting economic impact would be a bit less—in the range of \$60-\$100 billion—but still significant.^[17]

Regardless of the response, it is clear that there is a significant fiscal and economic cost to the immediate repeal of DACA, one borne by all of the nation's residents and not just by those whose lives would be upended by such a move. This suggests that it would make more sense to focus immigration enforcement efforts elsewhere—if indeed the aim is to protect American national sovereignty, as well as the life, liberty, and private property of Americans.

Small Gains, Big Costs

There are valid reasons to be concerned about unauthorized immigration in the United States. The DACA program, however, screens out anyone with a criminal past as part of its core eligibility requirements. DACA participants are not eligible for means-tested welfare benefits or Obamacare subsidies.

Since DACA applicants pay their own processing fees, the program itself does not have an administrative cost, and so the only costs we need to evaluate are those that stem from having these people in the country in the first place. We submit that any such costs are far outweighed by the benefits that come from immigrants who are able to work openly and legally, pay taxes, support entitlement programs, create jobs, innovate, and sire children who will one day do the same.

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The deportation of DACA participants would cost the American economy billions of dollars, as well as billions of tax dollars foregone, while doing little to address the true concerns that Americans may have about unauthorized immigrants.

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